

Message Text

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ACTION EB-07

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 017

INFO AMEMBASSY BRASILIA

AMCONSUL CALI

AMEMBASSY MEDELLIN

AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

UNCLAS BOGOTA 7282

E.O. 11652: NA

TAGS: EAGR, ECON, CO

SUBJECT: COFFEE; THE MODD AND THE MONEY

REF: BOGOTA 6970 AND BOGOTA 7074

1. THE COLOMBIAN REACTION TO THE OPPORTUNITIES PRESENTED AS A RESULT OF THE BRAZILIAN COFFEE FROST HAS BEEN ONE OF JOY TEMPERED BY AN ACKNOWLEDGMENT OF THE FACT THAT GREATLY INCREASED RECEIPTS FROM COFFEE EXPORTS MAY REKINDLE THE FIRES OF INFLATION IF NOT HANDLED CORRECTLY. WHILE EXPRESSING OUR SYMPATHY FOR THE MISFORTUNE OF THEIR NEIGHBOR, COLOMBIANS ARE DESCRIBING THE SITUATION IN TERMS OF BONANZA AND WINDFALL. GOVERNMENT SUPPORT FOR A NEW COFFEE AGREEMENT REMAINS STRONG HOWEVER, AND WAS REEMPHASIZED BY PRESIDENTITOPEZ EARLIER THIS WEEK IN SANTA MARTA.

2. WITH COFFEE PRICES HOVERING IN THE RANGE OF ONE DOLLAR PER POUND (BEFORE DISCOUNT) THE ECONOMIC BENEFITS PROMISE TO BE SUBSTANTIAL. OBSERVERS AGREE THAT

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THE HIGHER PRICES WILL RESULT IN ABOUT \$100 MILLION IN

ADDITIONAL FOREIGN EXCHANGE RECEIPTS THIS YEAR AND AS MUCH AS \$200 MILLION ABOVE THAT EARLIER ANTICIPATED FOR 1977 AND 1978 (POSSIBLY MORE IF THE ESTIMATED 4.5 MILLION BAGS IN RESERVE ARE FRAWN DOWN). WHILE BENEFITS TO THE GROWERS WILL BE PROPORTIONATELY LESS (BECAUSE OF TAXES, RETENTIONS, ETC), THEY WILL NEVER-THELESS, BE SUBSTANTIAL. ON JULY 22, THE NATIONAL COFFEE FEDERATION ANNOUNCED THAT NET PRICES TO PRODUCERS HAD BEEN RAISED BY 39 PERCENT, FROM 2160 TO 3000 PESOS PER 125 KILOS, AND SOME PRIVATE BUYERS ARE PAYING MORE. MOST COFFEE IN COLOMBIA IS PRODUCED ON SMALL, FAMILY-OWNED FARMS AND THE INCREASE IN PURCHASING POWER FOR THE OWNERS AND THEIR FAMILIES WILL BE CONSIDERABLE.

3. THE THREAT OF AN INCREASED RATE OF INFLATION DOES EXIST, BUT BANKERS AND COFFEE FEDERATION OFFICIALS BELIEVE THAT ITS IMPACT WILL BE CUSHIONED BY THE EXCESS CAPACITY NOW EXISTING IN MANY SECTORS OF THE ECONOMY (TEXTILES, FOR INSTANCE) OR BY TIGHTENING ALREADY EXISTING CREDIT AND MONETARY MEASURES.

ONE SCHEME PUT FORWARD WOULD HAVE THE COFFEE GROWERS RECEIVE ONLY 80 PERCENT OF THE SALES PRICE IN CASH WITH THE REST IN THE FORM OF GOVERNMENT BONDS. THE HANDLING OF THE INCREASED FOREIGN EXCHANGE RECEIPTS IS ALSO OF CONCERN, WITH PEOPLE DEMANDING THAT THEY BE USED TO COVER IMPORTS OF CAPITAL GOODS AND ESSENTIAL RAW MATERIALS RATHER THAN BEING FRITTERED AWAY ON LUXURY IMPORTS AS REPORTEDLY OCCURRED DURING SIMILAR PERIODS IN THE PAST.

4. PUBLIC SPOKESMEN ARE ALSO CAUTIONING AGAINST TOO GREAT A MOOD OF EUPHORIA, POINTING OUT THAT WHAT GOES UP MUST ALSO GO DOWN. HIGH PRICES MEAN INCREASED PLANTINGS IN OTHER COUNTRIES AND EVENTUALLY THE VERY REAL POSSIBILITY OF A PRECIPITIOUS DROP IN THE WORLD PRICE. BRAZILIAN POLICY IS ANOTHER UNKNOWN, NOT ONLY AS REGARDS IBC MANAGMENT OF STOCKS BUT ALSO THE ATTITUDE OF THE GROWER-WILL HE STAY IN COFFEE OR SWITCH TO ANOTHER CROP. FOR THIS REASON, COFFEE

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FEDERATION REPRESENTATIVES CONTINUE TO STRESS THE ADVISABILITY OF CONTINUING CROP DIVERSDIFICATION PROGRAMS IN THE COFFEE PRODUCING AREAS.

5. IN SUM, COLOMBIANS DESERVE TO BE HAPPY. THEIR BALANCE OF PAYMENTS PICTURE OVER THE NEXT FEW YEARS HAS BRIGHTENED, THE DECLINE IN FOREIGN EXCHANGE HOLDING WILL BE ARRESTED AND THE INCREASE IN DOMESTIC CONSUMPTION SHOULD PROVIDE A MUCH NEEDED STIMULUS TO

KEY INDUSTRIAL SECTORS. IF THEY ARE ABLE TO HANDLE
THE POTENTIAL PROBLEMS OF WEALTH AS EASILY AS THEY
HAVE IDENTIFIED THEM, THE SITUATION MAY TURN OUT TO BE
A BONANZA INDEED.
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